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Navigating the pitfalls of trade secret protection under Swiss Law

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Geneva (Credit: Credit: ITU Pictures)

In today's economy, trade secrets are among the most valuable assets of companies, and so preventing trade secret theft is an increasing priority for authorities worldwide. Both EU and US regulators are taking steps to strengthen the regulatory arsenal applicable to the protection of trade secrets.

For example, the US Department of Justice has announced the China Initiative, which aims to combat the theft of trade secrets perpetrated by Chinese actors. The European Commission estimated in 2018 based on a study by the European Centre for International Political Economy that cyber theft caused €60 billion loss in economic growth in the EU. In 2016, the EU has adopted a directive to strengthen and harmonise trade secret protection among its member states. Member states were required to implement the directive by June 2018. Many EU countries also took significant steps to implement trade secret laws in recent years.

Trade secret litigation has also increased in the US. The number of civil trade secrets cases filed in federal and state courts in the US has increased by 30% since 2016, according to a 2018 study by Lex Machina, a legal analytics firm. Large damage claims and verdicts worth hundreds of millions – like the $845 million awarded to a US branch of a Dutch semiconductor maker, ASML, for misappropriating trade secrets – show the importance of trade secrets and their protection.

This article sets out some strategic considerations for initiating trade secret proceedings under Swiss law. These considerations may be relevant when a company is suing a competitor after discovering the theft of trade secrets through an internal investigation, but also when a company is suing another party for damages while still trying to protect its trade secrets, for example in a fraud case.

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Protecting trade secrets v higher chances of success in litigation

Before initiating litigation, a company should think carefully about the issue of confidentiality. There are some trade-offs between the protection of confidentiality and the chances to successfully sue another party. Judicial proceedings generally bear a risk of exposing trade secrets. This may be particularly delicate in litigation regarding trade secret theft where the claimant has to elaborate on the trade secret that it wants to protect. There are different ways to protect confidentiality in criminal, civil, or even extrajudicial proceedings. Thus, an important strategic question is whether to take the civil or the criminal route. As will be shown below, if a party has been harmed by a criminal offence (eg, by a fraud or a trade secret theft), civil proceedings in Switzerland offer weaker means concerning discovery of evidence compared to civil proceedings in the US. This being said, while criminal proceedings have many advantages in this respect under Swiss law, the company loses control over the proceedings to the criminal authorities, which makes it more difficult to protect the company's trade secrets.

Criminal proceedings

If a company has become victim of a criminal offence, it may file a complaint to initiate criminal proceedings. An attractive feature of such proceedings in Switzerland is the possibility to bring civil claims based on the criminal offence as a private claimant in the criminal proceedings – the so-called adhesion procedure. In such proceedings, the prosecutor should also gather the evidence required to assess the civil claim unless this would unduly extend the proceedings. This is generally very beneficial for claimants, who typically bear the burden of proof, because they benefit from the evidence gathered in the course of the criminal proceedings. When asserting civil claims in the criminal proceedings, the private claimant does not need to initiate parallel civil proceedings, in which it would have to face lengthy and costly exchanges of legal briefs and court fees. The latter might be significant, depending upon the value at stake. Of course, the civil claims may also be too complex to be included in the criminal proceedings and separate civil proceedings will be conducted. However, even in this case, the evidence gathered in the criminal proceedings can be very helpful for the civil proceedings.

Swiss law provides strong measures to discover the truth in criminal proceedings. Criminal authorities have far-reaching powers to obtain information and evidence, including from third-parties, as well as to pierce the veil of confidentiality, especially through the mechanism of seizure. However, even in criminal proceedings, there are certain restrictions to seizure. For example, a party can request that material covered by legal professional privilege has to be sealed in court proceedings. The seals can be lifted in the absence of a valid ground for their application, but the removal procedure may substantially delay the entire proceedings.

The unfortunate corollary of these advantages is that the control over the proceedings also lies within the hands of the criminal authorities. They will use it as they deem appropriate to uncover the relevant facts, which may not always be in the interests of the private claimant. Authorities can request detailed information, which can put the protection of the trade secret at risk. In particular, they can send rogatory letters to foreign authorities with confidential information.

Another hurdle is that the company initiating criminal proceedings will have to show authorities that they have a reasonable suspicion that an offence was committed. This can

be tricky, especially as in practice the criminal authorities do not want to be used by the parties to gather evidence for civil claims.

Furthermore, as criminal proceedings are in principle public proceedings under Swiss law, companies may jeopardise their confidential information by initiating such proceedings. However, Swiss law features several measures to avoid this risk. The court may exclude members of the public from court hearings if legitimate interests require it. Such legitimate interests may include national security, trade secrets, or the protection of the private or intimate sphere. This measure, of course, does not address the knowledge acquired by the parties, or their ability to communicate this information and the related documents. To this end, a party may require the competent criminal authority to order counterparties and other persons involved in the proceedings, as well as their legal representatives, to maintain confidentiality regarding the proceedings and persons concerned. A person who fails to comply with such order can receive a fine of up to 10,000 Swiss francs ($10,000). Of course, the disclosure of trade secrets by the counterparty may violate other criminal provisions protecting trade secrets with considerably more substantial sanctions.

While this measure aims to ensure that confidentiality is preserved by the counterparty, it is usually more desirable to prevent it from acquiring knowledge of a trade secret or highly sensitive documents. To this end, access to the proceedings file may be restricted if it is required by an overriding private interest in preserving confidentiality, which may be particularly relevant in the context of trade secrets. However, the claimant must meet strict requirements to restrict the accused's access in criminal proceedings.

In conclusion, criminal proceedings are very effective to obtain information and evidence. Nonetheless, despite the various procedural tools available to the parties, the latter do not have control over the proceedings under Swiss law. Given the very nature of criminal proceedings, there is always a risk that the object of the proceedings and the information at stake will not remain confidential. Initiating criminal proceedings involves therefore the risk of exposing a trade secret. Thus, one may wish to carefully weigh the pros and cons of going through criminal proceedings instead of choosing the civil route.

Civil Proceedings

Unlike in criminal proceedings, the principle of production of evidence is generally applicable in civil proceedings. According to this principle, the parties must present the court with the facts in support of their case and submit the related evidence. This means that the claimant generally has the power to decide whether information should be used in the proceedings, which is advantageous under the aspect of confidentiality.

Furthermore, the Swiss Civil Procedure Code features measures to protect confidentiality. First, the court may order that proceedings be held *in camera* so that the public cannot attend. In addition, the parties may request from the court measures to ensure that taking evidence during the proceedings does not infringe trade secrets. These measures primarily aim at protecting confidential information from third parties, but also may be ordered to protect trade secrets from counterparties. For instance, access to the information at stake may only be granted to the judge or the legal representatives of the parties under some circumstances. Such measures are, generally speaking, more readily granted in civil than in criminal proceedings.

The other side of the coin is that the means to obtain information and evidence are far more limited in civil proceedings than in criminal proceedings, and also more limited in

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Swiss civil proceedings than in common law countries, especially in the US. Notably, Swiss law has no wide-ranging pre-trial discovery procedure as in the US, which would allow parties to obtain evidence from their counterparties by means of discovery devices and from third parties by means of subpoenas. While it is possible under Swiss law to request the court to order the counterparty to produce documents, this measure is far more restrictive than under US law. Comprehensive or vague requests for information that are commonly used in US civil discovery would be deemed inadmissible fishing expeditions under Swiss law. In practice, this significant difference of judiciary systems may prompt a claimant which is particularly concerned about confidentiality to start litigation in Switzerland rather than in a common law country. This assumes that the claimant has the choice to start proceedings in different jurisdictions, which is not unusual in transnational fraud cases.

All in all, the tools at the parties' disposal in civil proceedings allow for a stronger protection of confidential information, be it that the information is not subject to the proceedings or that other parties do not have access to this information. However, this greater guarantee of confidentiality comes at a cost: civil proceedings do not offer the same opportunities as criminal proceedings to obtain information and evidence. Furthermore, it is also possible that the criminal authorities will initiate criminal proceedings without a criminal complaint. Indeed, depending on the circumstances, civil judges have the duty to report to prosecuting authorities criminal acts that they have ascertained in the course of civil proceedings. The extent of such a duty depends on the cantonal law of the venue where the proceedings take place. In any case, the court will exercise this duty to report only in case of offences that must be prosecuted by law, even without a complaint from the victim. The breach of trade secrets does not fall into this category.

Extrajudicial Alternatives

Claimants should also consider alternative dispute resolution methods. Of course, these require the agreement of all parties, which is often difficult to obtain.

In arbitration, the parties can choose the rules under which they want the arbitration to be conducted. In cases with sensitive information, it is advisable to choose rules that ensure the highest level of confidentiality. Parties should furthermore add confidentiality clauses in their arbitration agreements that secure the confidentiality of the proceedings and the protection of trade secrets, (for example confidentiality obligations that third parties allowed to the arbitration have to agree to). With such measures in place, arbitration proceedings may offer a discrete alternative that can be advantageous with regard to confidentiality. This important issue must be taken into consideration when entering the agreement with the other party. However, arbitration may obviously be difficult to impose on a third party who did not sign the arbitration agreement.

When it comes to negotiation and mediation, the parties are the masters of the proceedings and do not depend on a judge. If they wish so, they can reach a solution without establishing the facts of the case and without discussing information that would be protected by trade secrets. By contrast, in civil proceedings, certain facts, which may involve trade secrets, have to be established to reach a verdict. Furthermore, in civil proceedings, there is always a risk that the judge will deny a request to preserve confidentiality. Also, as indicated above, the civil judge may have a duty to inform the prosecutor if a case is criminally tainted. One should therefore not underestimate the benefits of extrajudicial alternatives with regard to confidentiality if both parties are willing to use this avenue constructively.

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Conclusion

A company wishing to go to court while having trade secrets to protect faces a dilemma: suing its opponent in court with the highest chances of success or protecting its secrets at all costs.

On the one hand, a company can initiate criminal proceedings. These proceedings are effective in obtaining evidence, but risky in terms of confidentiality given the lack of control the parties have over the proceedings. On the other hand, a company can initiate civil proceedings, where it can manage confidentiality much better. However, these proceedings will be less effective than criminal proceedings in obtaining evidence.

At the end of the day, each company must weigh up the interests and determine where it wants to focus. Its decision will of course be heavily influenced by the circumstances, such as the importance of the trade secret and the proceedings, as well as evidence available and the need to obtain additional evidence. Where protection of the trade secret is of major importance and the company has already acquired the necessary evidence in an internal investigation, it may be preferable to initiate civil proceedings. Even in such a case, one often cannot exclude that the criminal authorities will initiate criminal proceedings on their own initiative or based on information provided to them by the civil court.

The appropriate strategy must be decided on a case-by-case basis. It will ultimately depend on the claimant's priorities and appetite for risk. In any case, the option of using alternative dispute resolution methods should be considered: although sometimes forgotten, they can be an effective method under the right circumstances.

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